

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of Fulton County, Kentucky for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund and the aggregate remaining fund information.

Financial Condition:

As of June 30, 2004, Fulton County had total net assets of \$40,803,247 with unrestricted net assets of \$1,506,903 and restricted net assets of \$273,682. The governmental funds had net assets of \$40,787,132 with unrestricted net assets of \$1,498,754 and restricted net assets of \$273,682. The business-type fund had an ending cash and cash equivalents of \$8,088 with total net assets of \$16,115. As of June 30, 2004, Fulton County had total debt principal outstanding of \$2,637,360 with \$183,819 due within the next year.

Report Comments:

- The County Jailer Shall Establish And Implement Internal Control Policies and Procedures For The Jail Inmate Fund
- The County Jailer Did Not Have The Authority To Enter Into A Contract For Collection of Outstanding Inmate Boarding Fees

Deposits:

The County's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Harold Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fulton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Fulton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Harold Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

The Management's Discussion and Analysis and Budgetary Comparison Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fulton County, Kentucky's basic financial statements. The accompanying supplementary information, and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2004 on our consideration of Fulton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- The County Jailer Shall Establish And Implement Internal Control Policies and Procedures For The Jail Inmate Fund
- The County Jailer Did Not Have The Authority To Enter Into A Contract For Collection of Outstanding Boarding Fees

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 20, 2004

FULTON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Harold M. Garrison	County Judge/Executive
Billy Nelms, Jr.	Magistrate
Louis Roscoe Hutchins	Magistrate
James D. Black	Magistrate
Dennis Hulin	Magistrate

Other Elected Officials:

Richard L. Major, Jr.	County Attorney
Ricky Parnell	Jailer
Lesia LaRue	County Clerk
Sarah Johnson	Circuit Court Clerk
Robert Hopper	Sheriff
Debbie Ward	Property Valuation Administrator
Henry Callison	Coroner

Appointed Personnel:

Karen Argo	County Treasurer
Fonda Swain	Finance Officer
Dennis Warner	Road Supervisor
Tommy Hodges	911 Administrator
Chris Buckingham	Jail Administrative Assistant



Fulton County Courthouse - 1903

Harold M. Garrison
County Judge / Executive

FULTON COUNTY, KENTUCKY

2004 S. 7th Street, Hickman, Ky. 42050

(270) 236-2594

Fulton County Management's Discussion and Analysis June 30, 2004

The financial management of Fulton County, Kentucky offers readers of Fulton County's financial statements this narrative overview and analysis of the financial activities of Fulton County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Fulton County had net assets of \$40,803,247 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,498,754 in the governmental funds as of June 30, 2004. In the enterprise fund (Jail Canteen), cash and cash equivalents were \$8,149 with total net assets of \$16,115. Total debt for governmental funds principal as of June 30, 2004 was \$2,637,360 with \$183,819 due within one year.
- The governmental fund's total net assets decreased by \$655,206 from the prior year. This decrease is primarily due to depreciation expense.
- At the close of the current fiscal year, Fulton County governmental funds reported current assets of \$1,772,436. Of this amount, \$1,498,754 is available for spending at the government's discretion (unreserved fund balance).
- Fulton County's total indebtedness at the close of fiscal year June 30, 2004 was \$2,453,541, which is long-term debt (due after 1 year).

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Fulton County's basic financial statements. Fulton County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

*James
Black*

*Dennis
Hulin*



*Roscoe
Hutchins*

*Billy
Nelms, Jr.*

**Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Fulton County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Fulton County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Fulton County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Fulton County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation, transportation, roads, other transportation services, debt service, capital projects, and administration. Fulton County has one business type activity---Jail Canteen.

The government-wide financial statements include not only Fulton County itself (known as the primary government), but also a legally blended component unit, which has a direct operational or financial relationship with the County. The blended component unit is the Fulton County Capital Projects Corporation.

Fund Financial Statements.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fulton County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Fulton County can be divided into broad categories: *governmental funds and proprietary funds*.

**Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Fulton County maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Fulton County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

Fiduciary Funds Financial Statements.

These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. Fulton County has two fiduciary funds---Jail Inmate Fund, and Jail Escrow Account.

Notes to the Financial Statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Net Assets.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Fulton County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and Other Assets	1,710,879	1,772,436	5,689	8,149	1,716,568	1,780,585
Capital Assets	42,540,446	41,652,056	2,201	7,966	42,542,647	41,660,022
Total Assets	44,251,325	43,424,492	7,890	16,115	44,259,215	43,440,607
Liabilities						
Current and Other Liabilities	170,627	183,819	0	0	0	0
Long-Term Liabilities	2,637,360	2,453,541	0	0	2,808,987	2,637,360
Total Liabilities	2,808,987	2,637,360	0	0	2,808,987	2,637,360
Net Assets						
Invested in Capital Assets, Net of Related Debt	39,731,459	39,014,696	2,201	7,966	39,733,660	39,022,662
Restricted	275,119	273,682	0	0	275,119	273,682
Unrestricted	1,435,760	1,498,754	5,689	8,149	1,441,449	1,506,903
Total Net Assets	41,442,338	40,787,132	7,890	16,115	41,450,228	40,803,247

Changes in Net Assets.

Governmental Activities. Fulton County's net assets decrease by \$655,206 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash increased \$61,557, due to a Homeland Security Grant and an Ambulance Grant that was for the two ambulance services operating within the County.
- Investment in capital assets and infrastructure, net of related debt decreased \$716,763 primarily due to depreciation expense.
- General revenues were \$749,335 and total revenues were \$3,485,109 as reflected in the Statement of Activities
- Expenditures totaled \$4,057,926 as reflected in the Statement of Activities.

**Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Changes in Net Assets. (Continued)

Business-type Activities. Fulton County's net assets increased by \$8,225 in fiscal year 2004. Key elements are as follows:

- Current assets and cash increased by \$2,460.
- Investment in capital and infrastructure net of related debt increased by \$5,765.
- Total revenue was \$45,629 as reflected in the Statement of Activities.
- Expenditures totaled \$37,404 as reflected in the Statement of Activities.

Financial Analysis of the County's Funds.

As noted earlier, Fulton County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Fulton County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$1,772,436. Approximately 95% (\$1,690,281) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$82,155) is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances.

The County has (4) four major governmental, and (3) three non-major funds.

Major Funds

- General Fund
- Road and Bridge Fund
- Jail Fund
- Fulton County Capital Projects Corporation

Non-major Funds

- Local Government Economic Assistance (LGEA) Fund
- Disaster & Emergency Services (DES) Fund
- Community Development Block Grant Fund

1. The General Fund is the chief operating fund of Fulton County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$470,609, while total fund balance was \$473,658. The County received \$519,943 in real and personal property, motor vehicle, and other taxes for approximately 69% of the county's general revenues. The County received \$235,368 from state intergovernmental revenue, various other service fees and miscellaneous receipts for the remaining 31% of revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$924,219 fund balance at June 30, 2004. The fiscal year 2004 expenditures for Road Fund were \$610,523.

**Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds. (Continued)

Governmental Funds Overview. (Continued)

3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2004 of \$94,605. The Jail Fund received \$1,343,797 for intergovernmental fees, primarily for housing prisoners.
4. The Fulton County Capital Projects Corporation had a fund balance of \$273,682. These funds are restricted for the payment of the Courthouse Refinanced Bond Issue.
5. The Local Government Economic Assistance Fund had a fund balance of \$145, an increase of \$145 over the previous fiscal year end.
6. The Disaster & Emergency Services Fund had a fund balance of \$6,127 as of June 30, 2004.
7. The Community Development Block Grant Fund had a balance of \$0 as of June 30, 2004 and is used to account for federal or state monies received. The County received \$19,675 in funds for the completion of the Phase II Housing Project.

Proprietary Funds Overview.

The County's proprietary fund statements provide the same type of information found in the government-wide statements.

Fulton County has (1) one enterprise-type proprietary fund, which is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2004 fiscal year, amounted to \$8,149 and total assets were \$16,115.

General Fund Budgetary Highlights.

Fulton County's budget was amended during the fiscal year increasing the budgeted amount by \$428,850. Budget amendments were made to various expenditures due to grants awarded in the fiscal year, surplus cash carried forward, and an increase in actual tax revenue.

Actual revenues were \$408,187 more than budget. This variance was due to Intergovernmental Revenue.

Capital Assets and Debt Administration.

Capital Assets. Fulton County's investment in capital assets for its government activities as of June 30, 2004, amount to \$41,652,056 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, infrastructure and current infrastructure additions. Fulton County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2004 fiscal year included the purchase of several vehicles and trailers.

**Fulton County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Debt Administration (Continued).

Additional information of the County's capital assets can be found in Note 3 of this report.

**Table 2
Fulton County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Infrastructure Assets	35,664,100	34,917,080	0	0	35,664,100	34,917,080
Land	62,980	62,980	0	0	62,980	62,980
Bldgs. & Improvements	5,993,942	5,870,874	0	0	5,993,942	5,870,874
Vehicles & Equip.	819,424	801,122	2,201	7,966	821,625	809,088
Total Net Capital Assets	42,540,446	41,652,056	2,201	7,966	42,542,647	41,660,022

Long-Term Debt. At the end of the 2004 fiscal year, Fulton County had total bonded debt outstanding of \$2,637,360. The totals are as follows: Courthouse Refinanced Bond Issue \$1,525,000; Jail Revenue Bonds \$215,521. The County has (2) two financing obligations for Jail additions totaling \$896,839.

Short-Term Debt. The County had no short-term debt as of June 30, 2004.

Other Matters.

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- Fluctuations can be expected due to future economic factors.
- In 2005, the County intends to submit an application for a \$500,000 Community Development Block Grant to construct a new Fulton County Senior Citizens Building to be located in Hickman, Kentucky.

Requests For Information.

This financial report is designed to provide a general overview of Fulton County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, with the exception of the Jail Canteen Fund or Jail Inmate Fund, or requests for additional financial information should be addressed to the Fulton County Treasurer, 2004 S. 7th Street, Hickman, Kentucky 42050.

Questions concerning the Jail Canteen Fund or the Jail Inmate Fund should be addressed to the Fulton County Jailer, 2010 S. 7th Street, Hickman, Kentucky 42050.

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FULTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

FULTON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,772,436	\$ 8,088	\$ 1,780,524
Accounts Receivable		61	61
Total Current Assets	<u>1,772,436</u>	<u>8,149</u>	<u>1,780,585</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	62,980		62,980
Buildings	5,870,874		5,870,874
Vehicles and Equipment	801,122	7,966	809,088
Infrastructure Assets - Net of Depreciation	<u>34,917,080</u>		<u>34,917,080</u>
Total Noncurrent Assets	<u>41,652,056</u>	<u>7,966</u>	<u>41,660,022</u>
Total Assets	<u>43,424,492</u>	<u>16,115</u>	<u>43,440,607</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	133,916		133,916
Financing Obligations Payable	<u>49,903</u>		<u>49,903</u>
Total Current Liabilities	<u>183,819</u>		<u>183,819</u>
Noncurrent Liabilities:			
Bonds Payable	1,606,605		1,606,605
Financing Obligations Payable	<u>846,936</u>		<u>846,936</u>
Total Noncurrent Liabilities	<u>2,453,541</u>		<u>2,453,541</u>
Total Liabilities	<u>2,637,360</u>		<u>2,637,360</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	39,014,696	7,966	39,022,662
Restricted For:			
Debt Service	273,682		273,682
Unrestricted	<u>1,498,754</u>	<u>8,149</u>	<u>1,506,903</u>
Total Net Assets	<u>\$ 40,787,132</u>	<u>\$ 16,115</u>	<u>\$ 40,803,247</u>

The accompanying notes are an integral part of the financial statements.

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FULTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

FULTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 617,507	\$ 476	\$ 141,876	\$
Protection to Persons and Property	1,671,500	1,311,856	129,371	
General Health and Sanitation	621			
Social Services	3,299		145	
Recreation and Culture	12,275			
Transportation Facilities	1,367			
Roads	1,466,105		540,851	413,924
Other Transportation Facilities and Services	21,042			
Interest On Long-term Debt	136,103		177,600	
Capital Projects	128,107			19,675
Total Governmental Activities	4,057,926	1,312,332	989,843	433,599
Business-type Activities:				
Jail Canteen Fund	37,404	45,629		
Total Business-type Activities	37,404	45,629		
Total Primary Government	\$ 4,095,330	\$ 1,357,961	\$ 989,843	\$ 433,599

General Revenues:

Taxes:	
Real Property Taxes	
Motor Vehicle Taxes	
Other Taxes	
In Lieu Tax Payments	
Excess Fees	
Legal Process	
Miscellaneous Revenues	
Interest Earned	
Total General Revenues	
Change in Net Assets	
Net Assets - Beginning (Restated)	
Net Assets - Ending	

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (475,155)	\$	\$ (475,155)
(230,273)		(230,273)
(621)		(621)
(3,154)		(3,154)
(12,275)		(12,275)
(1,367)		(1,367)
(511,330)		(511,330)
(21,042)		(21,042)
41,497		41,497
(108,432)		(108,432)
(1,322,152)		(1,322,152)
	8,225	8,225
	8,225	8,225
\$ (1,322,152)	\$ 8,225	\$ (1,313,927)
\$ 214,092	\$ -	\$ 214,092
39,663		39,663
232,837		232,837
33,350		33,350
2,568		2,568
61		61
191,433		191,433
35,331		35,331
\$ 749,335	\$ -	\$ 749,335
\$ (572,817)	\$ 8,225	\$ (564,592)
41,442,338	7,890	41,450,228
\$ 40,869,521	\$ 16,115	\$ 40,885,636

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FULTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

FULTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Capital Projects Corporation</u>
ASSETS				
Cash and Cash Equivalents	\$ 473,658	\$ 924,219	\$ 94,605	\$ 273,682
Total Assets	<u>\$ 473,658</u>	<u>\$ 924,219</u>	<u>\$ 94,605</u>	<u>\$ 273,682</u>
FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 3,049	\$ 7,800	\$ 71,306	\$
Unreserved:				
General Fund Type	470,609			
Special Revenue Fund Types		916,419	23,299	
Debt Service Fund Types				273,682
Total Fund Balances	<u>473,658</u>	<u>924,219</u>	<u>94,605</u>	<u>273,682</u>
Total Liabilities and Fund Balances	<u>\$ 473,658</u>	<u>\$ 924,219</u>	<u>\$ 94,605</u>	<u>\$ 273,682</u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 6,272</u>	<u>\$ 1,772,436</u>
<u>\$ 6,272</u>	<u>\$ 1,772,436</u>
\$	\$ 82,155
	470,609
6,272	945,990
<u> </u>	<u>273,682</u>
<u>6,272</u>	<u>1,772,436</u>
<u>\$ 6,272</u>	<u>\$ 1,772,436</u>

Reconciliation of the Balance Sheet - Governmental Funds
To the Statement of Net Assets:

Total Fund Balances	\$ 1,772,436
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	51,208,685
Accumulated Depreciation	(9,556,629)
Liabilities:	
Financing Obligations	(896,839)
Bonded Debt	<u>(1,740,521)</u>
Net Assets Of Governmental Activities	<u>\$ 40,787,132</u>

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**FULTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

FULTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 486,593	\$	\$
In Lieu Tax Payments	33,350		
Excess Fees	2,568		
Licenses and Permits	450		
Intergovernmental	194,242	954,774	1,343,797
Charges for Services			34,473
Miscellaneous	28,781	1,334	161,318
Interest	9,327	15,800	970
Total Revenues	<u>755,311</u>	<u>971,908</u>	<u>1,540,558</u>
EXPENDITURES			
General Government	802,656		
Protection to Persons and Property	40,453		1,536,990
General Health and Sanitation	621		
Social Services	3,299		
Recreation and Culture	5,075		
Transportation Facilities and Services		1,367	
Roads		481,682	
Other Transportation Facilities and Service		19,042	
Debt Service			114,075
Capital Projects		108,432	
Total Expenditures	<u>852,104</u>	<u>610,523</u>	<u>1,651,065</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(96,793)</u>	<u>361,385</u>	<u>(110,507)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	76,798		
Transfers To Other Funds	(6,062)	(76,798)	
Total Other Financing Sources (Uses)	<u>70,736</u>	<u>(76,798)</u>	
Net Change in Fund Balances	(26,057)	284,587	(110,507)
Fund Balances - Beginning (restated)	499,715	721,343	205,112
Fund Balances - Ending	<u>\$ 473,658</u>	<u>\$ 1,005,930</u>	<u>\$ 94,605</u>

The accompanying notes are an integral part of the financial statements.

FULTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Capital Projects Corporation	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 486,593
		33,350
		2,568
		450
177,600	30,498	2,700,912
		34,473
		191,432
9,234		35,331
<u>186,834</u>	<u>30,498</u>	<u>3,485,109</u>
		802,656
	14,141	1,591,584
		621
		3,299
		5,075
		1,367
		481,682
		19,042
193,655		307,730
	19,675	128,107
<u>193,655</u>	<u>33,816</u>	<u>3,341,163</u>
<u>(6,821)</u>	<u>(3,318)</u>	<u>143,946</u>
6,062		82,860
		(82,860)
<u>6,062</u>		
(759)	(3,318)	143,946
275,119	9,590	1,710,879
<u>\$ 274,360</u>	<u>\$ 6,272</u>	<u>\$ 1,854,825</u>

The accompanying notes are an integral part of the financial statements.

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**FULTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**FULTON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	143,946
--------------------------------------------------------	----	---------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		232,798
Depreciation Expense		(1,121,188)

Borrowed Money

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations		48,576
Bond Payment		<u>123,051</u>

Change in Net Assets of Governmental Activities	\$	<u><u>(572,817)</u></u>
-------------------------------------------------	----	-------------------------

The accompanying notes are an integral part of the financial statements.

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FULTON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

**Business-Type
Activity -
Enterprise Fund**

**Jail
Canteen
Fund**

Cash and Cash Equivalents	\$	8,088
Accounts Receivable		61
Total Current Assets		8,149

Vehicles and Equipment	9,001
Less Accumulated depreciation	(1,035)
Total Noncurrent Assets	7,966
Total Assets	16,115

Net of Related Debt	
Unrestricted	7,966
Total Net Assets	8,149
	<u>\$ 16,115</u>

The accompanying notes are an integral part of the financial statements.

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FULTON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

FULTON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 45,629
Total Operating Revenues	<u>45,629</u>
Operating Expenses	
Cost of Sales	9,887
Educational and Recreational	14,405
Work Release	9,738
Personnel Costs	2,600
Depreciation	735
Miscellaneous	39
Total Operating Expenses	<u>37,404</u>
Operating Income	<u>8,225</u>
Change In Net Assets	8,225
Total Net Assets - Beginning	7,890
Total Net Assets - Ending	<u><u>\$ 16,115</u></u>

The accompanying notes are an integral part of the financial statements.

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FULTON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

FULTON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 45,629
Cost of Sales	(9,887)
Educational and Recreational	(14,405)
Work Release	(9,738)
Personnel Costs	(2,600)
Miscellaneous	(39)
Net Cash Provided By Operating Activities	<u>8,960</u>
Cash Flows From Capital and Related Financing Activities	
Capital Asset - Van	(6,500)
Net Cash (Used) By Capital and Related Financing Activities	<u>(6,500)</u>
Net Increase in Cash and Cash Equivalents	2,460
Cash and Cash Equivalents - July 1, 2003	<u>5,689</u>
Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 8,149</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 8,225
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>735</u>
Net Cash Provided By Operating Activities	<u><u>\$ 8,960</u></u>

The accompanying notes are an integral part of the financial statements.

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FULTON COUNTY
STATEMENT OF FIDUCIARY FUNDS NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

FULTON COUNTY
STATEMENT OF FIDUCIARY FUNDS NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Agency Funds</u>	
	<u>Jail Inmate Account</u>	<u>Jail Escrow Account</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	<u>\$ 21,871</u>	<u>\$ 2,151</u>
Total Assets	<u>21,871</u>	<u>2,151</u>
Liabilities		
Amounts Held in Custody for Others	<u>21,871</u>	<u>2,151</u>
Total Liabilities	<u>21,871</u>	<u>2,151</u>
Net Assets		
Total Net Assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its governmental wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Fulton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government and the county is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Fulton County Capital Projects Corporation

The Fulton County Fiscal Court appoints a voting majority of the Capital Projects Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Capital Projects Corporation. Financial information for the Capital Projects Corporation is blended within Fulton County's financial statements. All activities of the Capital Projects Corporation are accounted for within a governmental fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Fulton County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Fulton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Fulton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the business-type and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivable, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and business-type funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, business-type funds, and fiduciary funds. Major individual governmental funds and major business-type funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the County. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the County to maintain these receipts and expenditures separately from the General Fund. This fund is presented as a Special Revenue Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the County to maintain these receipts and expenditures separately from the General Fund. This fund is presented as a Special Revenue Fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Public Properties Corporation – This fund accounts for the debt service requirements of refunding revenue bonds of the County as a Debt Service Fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Governor's Office for Local Development does not require the County to report or budget these funds. However, the county has decided to include the Public Properties Corporation as part of the primary government as a blended component unit of the county.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, Disaster and Emergency Services Fund, and Community Development Block Grant Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Business-type funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Business-type funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with business's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's business-type funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the business-type funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major business-type funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary Funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds are used to account for monies held by the Jail Inmate Account and the Jail Escrow Account for custodial purposes only. Unlike other funds, the agency funds report assets and liabilities only; therefore, they have no measurement focus.

The primary government reports the following fiduciary funds:

Jail Inmate Account – This fund accounts for funds received from inmates and held until inmate uses these funds.

Jail Escrow Account – This fund accounts for funds received from inmates but jailer is unable to locate former inmates to return funds.

E. Deposits and Investments

For the purpose of the statement of cash flows, the government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Asset Classification</u>	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 2,500	15-30
Buildings and Building Improvements	\$ 2,500	10-60
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 2,500	10-50

G. Long-term Obligations

In the government-wide financial statements and business-type fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the county incurs no liability until performance has occurred on the part of the party with whom the county has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Public Properties Corporation (Debt Service) to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The County may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of Fulton County: Fulton County Economic Development Partnership; Senior Citizens, Incorporated; Hickman-Fulton County Riverport Authority; Ken-Tenn Airport; and Purchase Area Regional Industrial Authority, Incorporated.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 62,980	\$	\$	\$ 62,980
Total Capital Assets Not Being Depreciated	62,980			62,980
Capital Assets, Being Depreciated:				
Buildings	7,793,948			7,793,948
Vehicles and Equipment	1,233,304	43,628		1,276,932
Infrastructure	41,885,655	189,170		42,074,825
Total Capital Assets Being Depreciated	50,912,907	232,798		51,145,705
Less Accumulated Depreciation For:				
Buildings	(1,800,006)	(123,068)		(1,923,074)
Vehicles and Equipment	(413,880)	(61,930)		(475,810)
Infrastructure	(6,221,555)	(936,190)		(7,157,745)
Total Accumulated Depreciation	(8,435,441)	(1,121,188)		(9,556,629)
Total Capital Assets, Being Depreciated, Net	42,477,466	(888,390)		41,589,076
Governmental Activities Capital Assets, Net	\$ 42,540,446	\$ (888,390)	\$ 0	\$ 41,652,056

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows: (Continued)

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government: (Continued)				
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 2,501	\$ 6,500	\$ 0	\$ 9,001
Total Capital Assets Being Depreciated	2,501	6,500		\$ 9,001
Less Accumulated Depreciation For:				
Vehicles and Equipment	(300)	(735)		\$ (1,035)
Total Accumulated Depreciation	(300)	(735)		\$ (1,035)
Total Capital Assets, Being Depreciated, Net	2,201	5,765		\$ 7,966
Business-Type Activities Capital Assets, Net	<u>\$ 2,201</u>	<u>\$ 5,765</u>	<u>\$ 0</u>	<u>\$ 7,966</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 47,649
Protection to Persons and Property	79,916
Recreation and Culture	7,200
Roads, Including Depreciation of General Infrastructure Assets	984,423
Other Transportation Facilities and Services	<u>2,000</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,121,188</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 735</u>
Total Depreciation Expense - Business Activities	<u>\$ 735</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt

A. Fulton County entered into two financing agreements with the Kentucky Association of Counties Leasing Trust. The purpose of these two financing agreements was for the construction and use of the Fulton County Detention Facility Annex #1 and Annex #2. The Annex #1 financing agreement, entered into on July 17, 1992, was for a total principal of \$415,000 at a fixed rate of 5.25 percent. The Annex #2 financing agreement, entered into on January 30, 1998, was for a total principal of \$775,000 at a variable rate, which is 2.13 percent for the current fiscal year. As of June 30, 2004, the County is in compliance with financing agreements. Total principal outstanding was \$280,000 and \$616,839, respectively. The remaining principal and interest requirements are:

(1) Jail Annex #1

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 15,000	\$ 16,984
2006	16,000	16,027
2007	17,000	15,009
2008	18,000	13,928
2009	19,000	12,786
2010-2014	112,000	44,504
2015-2017	83,000	8,340
Totals	<u>\$ 280,000</u>	<u>\$ 127,578</u>

(2) Jail Annex #2

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 34,903	\$ 17,042
2006	36,282	16,052
2007	37,716	15,008
2008	39,207	13,956
2009	40,756	12,830
2010-2014	229,253	45,805
2015-2018	198,722	11,551
Totals	<u>\$ 616,839</u>	<u>\$ 132,244</u>

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

- B. The Kentucky Local Correctional Facilities Construction Authority ("Authority"), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of the jail facilities in Fulton County. The Authority issued \$943,147 of revenue bonds at various interest rates (currently 4.5 percent through 7 percent), of which the county has agreed to pay \$355,082 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2004 totaled \$215,521. The remaining bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 13,916	\$ 13,868
2006	14,839	12,915
2007	15,824	11,897
2008	16,874	10,812
2009	17,995	9,654
2010-2014	109,591	27,994
2015	26,482	882
Totals	<u>\$ 215,521</u>	<u>\$ 88,022</u>

- C. The Fulton County Capital Projects Corporation ("Corporation"), an independent corporate agency and instrumentality of Fulton County, issued first mortgage refunding revenue bonds, series 1996, dated December 1, 1996, for the purpose of discharging the outstanding bonds of series 1990A, 1990B, and 1991 (collectively referred to herein as the "Prior Bonds"). As of June 30, 2004 the bonds had been called. The net proceeds thereof were used to complete, equip, and furnish the Court Facilities Project and annex which houses county government offices. The Corporation issued \$2,215,000 of refunding revenue bonds, the proceeds of which were used to discharge all prior bonds.

The Kentucky Administrative Office of the Courts ("AOC") has agreed to pay lease payments directly to the paying agent on behalf of the Fulton County Fiscal Court as is required by the Use and Sublease Agreement between the Fulton County Fiscal Court and AOC dated December 1, 1996. If the payment for the Sublease Agreement is not sufficient to meet the principal and interest requirements of the bond, the County is contingently liable for the payments.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

C. (Continued)

As of June 30, 2004, outstanding bond principal was \$1,525,000. The remaining bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 120,000	\$ 77,675
2006	125,000	71,305
2007	130,000	64,675
2008	135,000	57,751
2009	145,000	50,401
2010-2013	870,000	113,318
Totals	<u>\$ 1,525,000</u>	<u>\$ 435,125</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 228,572	\$	\$ 13,051	\$ 215,521	\$ 13,916
Refunding Bonds	1,635,000		110,000	1,525,000	120,000
Financing Obligations	945,415		48,576	896,839	49,903
Governmental Activities					
Long-term Liabilities	<u>\$ 2,808,987</u>	<u>\$ 0</u>	<u>\$ 171,627</u>	<u>\$ 2,637,360</u>	<u>\$ 183,819</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$36,345 in interest on financing obligations and \$98,417 in interest on bonds.

Note 6. Related Party Transactions

During the fiscal year ended June 30, 2004, the magistrate from District #4 was employed as a salesperson by Fields Petroleum, Incorporated. Even though the magistrate from District #4 abstained from voting on the oil and gas bids, Fulton County awarded this bid to Fields Petroleum. During the fiscal year ended June 30, 2004, Fulton County purchased \$27,324 from Fields Petroleum, Incorporated. The Fulton County's Ethics Code allows this transaction since the magistrate from District #4 did not participate in the bid process.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8 Insurance

During the fiscal year ended June 30, 2004, Fulton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The County has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental and business type activities is an increase of \$39,731,459 and an increase of \$2,201 respectively, due to capital assets previously not reported.

The beginning net asset balance for the governmental activities and the beginning fund balance for the General Fund and Jail Fund have been restated by \$300 and \$35 respectively, for prior year voided checks.

Note 10. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction to arrive at estimated historical cost.

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FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2004

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 464,900	\$ 464,900	\$ 486,593	\$ 21,693
In Lieu Tax Payments	34,000	34,000	33,350	(650)
Excess Fees	6,873	6,873	2,568	(4,305)
Licenses and Permits	400	400	450	50
Intergovernmental Revenue	123,029	214,875	194,242	(20,633)
Miscellaneous	4,500	4,500	28,781	24,281
Interest	10,000	10,000	9,327	(673)
Total Revenues	643,702	735,548	755,311	19,763
EXPENDITURES				
General Government	1,068,150	1,070,150	802,656	267,494
Protection to Persons and Property	26,250	115,696	40,453	75,243
General Health and Sanitation	6,300	6,300	621	5,679
Social Services	4,800	5,200	3,299	1,901
Recreation and Culture	16,000	16,000	5,075	10,925
Debt Service	13,938	13,938		13,938
Capital Projects	54,000	54,000		54,000
Total Expenditures	1,189,438	1,281,284	852,104	429,180
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(545,736)	(545,736)	(96,793)	448,943
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	76,798	76,798	76,798	
Transfers To Other Funds	(6,062)	(6,062)	(6,062)	
Total Other Financing Sources (Uses)	70,736	70,736	70,736	
Net Changes in Fund Balances	(475,000)	(475,000)	(26,057)	448,943
Fund Balances - Beginning	475,000	475,000	499,715	24,715
Fund Balances - Ending	\$ 0	\$ 0	\$ 473,658	\$ 473,658

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 586,410	\$ 586,410	\$ 954,774	\$ 368,364
Miscellaneous	1,000	1,000	1,334	334
Interest	20,000	20,000	15,800	(4,200)
Total Revenues	607,410	607,410	971,908	364,498
EXPENDITURES				
Transportation Facilities	10,000	10,000	1,367	8,633
Roads	716,746	776,746	481,682	295,064
Other Transportation Facilities	26,125	26,125	19,042	7,083
Capital Projects	63,000	108,500	108,432	68
Total Expenditures	815,871	921,371	610,523	310,848
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(208,461)	(313,961)	361,385	675,346
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(76,798)	(76,798)	(76,798)	
Total Other Financing Sources (Uses)	(76,798)	(76,798)	(76,798)	
Net Changes in Fund Balances	(285,259)	(390,759)	284,587	675,346
Fund Balances - Beginning	725,000	725,000	721,343	(3,657)
Fund Balances - Ending	\$ 439,741	\$ 334,241	\$ 1,005,930	\$ 671,689

FULTON COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,042,578	\$ 1,299,505	\$ 1,343,797	\$ 44,292
Charges for Services	52,222	52,222	34,473	(17,749)
Miscellaneous	144,707	144,707	161,318	16,611
Interest	10,000	10,000	970	(9,030)
Total Revenues	<u>1,249,507</u>	<u>1,506,434</u>	<u>1,540,558</u>	<u>34,124</u>
EXPENDITURES				
Protection to Persons and Property	1,250,007	1,587,011	1,536,990	50,021
Debt Service	124,500	124,500	114,075	10,425
Total Expenditures	<u>1,374,507</u>	<u>1,711,511</u>	<u>1,651,065</u>	<u>60,446</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(125,000)</u>	<u>(205,077)</u>	<u>(110,507)</u>	<u>94,570</u>
OTHER FINANCING SOURCES (USES)				
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u></u>	<u></u>
Net Changes in Fund Balances	(125,000)	(205,077)	(110,507)	94,570
Fund Balances - Beginning	<u>125,000</u>	<u>205,077</u>	<u>205,077</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 94,570</u>	<u>\$ 94,570</u>

**FULTON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**FULTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

**FULTON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

	Local Government Economic Assistance Fund	Disaster And Emergency Fund	Community Development Block Grant Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 145	\$ 6,127	\$ 0	\$ 6,272
Total assets	<u>\$ 145</u>	<u>\$ 6,127</u>	<u>\$ 0</u>	<u>\$ 6,272</u>
FUND BALANCES				
Fund Balances:				
Unreserved:				
Special Revenue Fund Types	<u>\$ 145</u>	<u>\$ 6,127</u>	<u></u>	<u>\$ 6,272</u>
Total Fund Balances	<u>\$ 145</u>	<u>\$ 6,127</u>	<u>\$ 0</u>	<u>\$ 6,272</u>

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FULTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

FULTON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Disaster And Emergency Fund	Community Development Block Grant Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 145	\$ 10,678	\$ 19,675	\$ 30,498
Total Revenues	<u>145</u>	<u>10,678</u>	<u>19,675</u>	<u>30,498</u>
EXPENDITURES				
Protection to Persons and Property		14,141		14,141
Capital Projects			19,675	19,675
Total Expenditures		<u>14,141</u>	<u>19,675</u>	<u>33,816</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>145</u>	<u>(3,463)</u>		<u>(3,318)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	145	(3,463)		(3,318)
Fund Balances - Beginning		9,590		9,590
Fund Balances - Ending	<u>\$ 145</u>	<u>\$ 6,127</u>	<u>\$ 0</u>	<u>\$ 6,272</u>

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**FULTON COUNTY
COMMENTS AND RECOMMENATIONS**

For The Year Ended June 30, 2004

**FULTON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2004

STATE LAWS AND REGULATIONS

The County Jailer Did Not Have The Authority To Enter Into A Contract For Collection Of Outstanding Inmate Boarding Fees

The County Jailer contracted with a private vender (Bradley & Roberts) for billing services in order to attempt to collect outstanding inmate boarding fees in excess of \$600,000. The contract calls for Bradley & Roberts to receive one-third of all boarding fees collected either by the Jailer or through their collections. The County Jailer submits boarding fees collected at the Jail to Bradley & Roberts, who withholds the contract price before submitting 'net collections' to the County Treasurer. According to KRS 441.265, the County Jailer did not have the authority to enter into this contract with the private vendor to perform collection services. The Fulton County Fiscal Court may, upon advice of the jailer, contract with one or more public agencies or private vendors to perform this billing and collection. We recommend that the County Jailer submit all boarding fees collected to the County Treasurer monthly. We recommend that the County Attorney, at the direction of the Fulton County Fiscal Court, review the validity of the contract with Bradley & Roberts to determine if legal actions should be initiated to obtain a refund for the collections fees paid under the contract. We also recommend the Fiscal Court review other options for collecting the outstanding inmate boarding fees.

County Judge/Executive Harold Garrison's Response:

No Response.

County Jailer Ricky Parnell's Response:

No Response.

REPORTABLE CONDITIONS

The County Jailer Shall Establish And Implement Internal Control Policies and Procedures For The Jail Inmate Fund

Based on auditing procedures performed, auditors noted matters involving the control procedures used to account for the Jail Inmate Fund that we consider a material weakness. The County Jailer is responsible for the design and implementation of programs and controls to prevent and detect fraud as it relates to his duties as an elected official. We recommend the following policies and procedures be implemented, at a minimum:

- Jailer should only process transactions on behalf of the prisoners. All other types of transactions should be referred and paid to the Fulton County Jail Fund.
- All monies received on behalf of the prisoners should be received in the Control Room. All jail deputies receiving monies should issue a receipt to payee, post to the inmate's account and place in a secured location (ex. combination safe). All monies received by check should be made to the Fulton County Detention Center and endorsed 'For Deposit Only'.
- Administrative Assistant #1 should reconcile monies to issued receipts, prepare daily checkout sheet and deposit slip, and post to bookkeeping software (Quicken).

FULTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

REPORTABLE CONDITIONS (Continued)

The County Jailer Shall Establish And Implement Internal Control Policies and Procedures For The Jail Inmate Fund (Continued)

- Administrative Assistant #2 should print daily inmate receipt report, which should agree with the daily checkout sheet. Any differences should be investigated.
- Once the deposit agrees to the receipts ledger, deposit should be made intact and on a daily basis.
- All prisoners receiving monies on their account should also sign a receipt.
- Jailer should periodically agree receipts ledger to bank deposit by initialing daily checkout sheet.
- Administrative Assistant #1 should print daily inmate transaction reports and monthly transaction reports, which should be reviewed by Jailer or his designee.
- Prisoners should sign a receipt for any charges posted on their account.
- Administrative Assistant #2 should make all disbursements. All disbursements should have supporting documentation (i.e. transaction reports, signed inmate release receipts). No checks should be issued after business hours.
- Checks should be made out to actual payee. (i.e. Fulton County Jail Fund).
- A signature stamp should not be used. This practice is too vulnerable to misuse. All checks should be signed by Jailer or his designee.
- Checks should be given to Administrative Assistant #1 to post in bookkeeping software (Quicken).
- Checks should be mailed by Jailer or his designee.
- Administrative Assistant #1 should prepare bank reconciliation monthly. This should include reconciling inmate's balances to money in the bank. Any differences should be investigated.
- All vendor invoices should be paid within 30 days.
- Any checks outstanding at year-end from the previous year should be voided and then transferred to the Jail Inmate Escrow Account.
- Jailer should periodically review disbursement ledger and bank reconciliations by initialing bank reconciliations.

The policies and procedures developed to account for the Jail Inmate Fund should be adopted into the Jail Detention Center's Policies & Procedure Manuel, which should be approved by the Fulton County Fiscal Court.

County Jailer Ricky Parnell's Response:

No Response

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Garrison, Fulton County Judge/Executive
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fulton County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fulton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and/or material weaknesses. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fulton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Jailer Shall Establish And Implement Internal Control Policies and Procedures For The Jail Inmate Fund

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Fulton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Jailer Did Not Have The Authority To Enter Into A Contract For Collection Of Outstanding Inmate Boarding Fees

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 20, 2004

